

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-03 H-01 INR-07 L-02

NSAE-00 NSC-05 PA-01 RSC-01 PRS-01 SP-02 SS-15

USIA-06 AID-05 COME-00 EB-07 FRB-01 TRSE-00 XMB-02

OPIC-03 CIEP-01 LAB-04 SIL-01 OMB-01 FEA-01 AGR-05

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P 152140Z JAN 75

FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC PRIORITY 5353

INFO USCINCSO 5354

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E.O. 11652: N/A

TAGS: ECON, PFOR, PINT, BL

SUBJ: PRESIDENT ANNOUNCES PRICE AND WAGE FREEZE

SUMMARY: IN BRIEF RADIO/TV ADDRESS EVENING OF JANUARY 14, PRESIDENT BANZER ANNOUNCED PRICE FREEZE ON BASIC NECESSITIES AND FUELS AND FREEZE ON WAGES AND SALARIES. IMMEDIATELY FOLLOWING BANZER'S SPEECH AN ANNOUNCER PRESENTED FOLLOWING CABINET DECISIONS (MOST IF NOT ALL OF WHICH PRESUMABLY WILL SOON APPEAR AS DECREE LAWS OR SUPREME DECREES): 1) FREEZE OF PRICES OF CARBURANTES (GASOLINE AND DIESEL OIL) AND BASIC NECESSITIES AT PRESENT LEVELS; 2) MAINTENANCE OF SALARIES AND WAGES AT EXISTING LEVELS; 3) COLLATERAL MEASURES TO IMPROVE PURCHASING POWER OF SALARIES SUCH AS A) LOWER TARIFFS ON PASSENGER VEHICLES AND TRUCKS, B) ANTI-SPECULATION AND HOARDING MEASURES, C) LOWER PRICES ON PHARMACEUTICALS; 4) INCENTIVES AND FACILITIES TO INDUCE BOLIVIAN PROFESSIONALS AND TECHNICIANS TO RETURN TO BOLIVIA; 5) PROMOTION OF NON-TRADITIONAL EXPORTS BY REBATE OF INTERNAL TAXES; 6) TRANSFER FO MEDICAL SERVICES OF STATE RAILWAY AGENCY (ENFE) TO

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RAILWAY AND RELATED WORKERS' SOCIAL SECURITY OFFICE;

7) MERGER OF SPORTS SECRETARIAT GENERAL AND SECRETARIAT
GENERAL OF SPORTS AND YOUTH.

1. BANZER SAID CABINET HAD BEEN STUDYING ALTERNATIVE
MEASURES IN LIGHT OF WORLD CONDITIONS AND BOLIVIA'S
POSSIBILITIES, BUT THAT ITS WORK HAD BEEN DISTORTED
BY RUMORS AND AGITATORS THAT HAD RESULTED IN SHORTAGES
AND HOARDING. CALLED UPON PEOPLE TO SHOW FAITH IN ARMED
FORCES GOVERNMENT. HE SAID THAT FOLLOWING ANALYSIS OF ALL
ALTERNATIVES, CABINET HAD DECIDED MAINTAIN MONETARY
STABILITY, PRICES OF BASIC NECESSITIES, FUELS AND ALL PRO-
DUCTS OF NATION'S INDUSTRY.

2. WAGES WOULD BE HELD AT PRESENT LEVELS IN VIEW OF PAST
EXPERIENCE WHICH SHOWED THAT WAGE INCREASES PUSH UP PRICES
DISPROPORTIONATELY, REDUCE SALARY PURCHASING POWER TO
DETIMENT OF MAJORITY, DISTORT PRODUCTION COSTS, INCREASE
MONEY SUPPLY POSSIBLY CAUSING SPIRALING INFLATION, EFFECTS
OF WHICH BOLIVIANS WELL AWARE. BANZER SAID WAGE INCREASE
WOULD ALSO NEGATE DEVELOPMENT POSSIBILITIES BY REDUCING
SAVINGS AVAILABLE FOR PRODUCTIVE PROJECTS. HE CITED WORLD
FOOD AND ENERGY SHORTAGES, INFLATION AND CONSERVATION MEASURES
BEING ADOPTED BY RICHEST AND MOST INDUSTRIALIZED NATIONS IN
FACE OF CRISIS. BOLIVIA COULD NOT ISOLATE ITSELF FROM THESE
INFLUENCES. SAID IMPORTED MACHINERY PRICES HAD RISEN BY MORE
THAN 400 PERCENT IN 1974.

3. BANZER CITED ECONOMIC SUCCESSES OF 1974 AND ATTRIBUTED
THEM TO SOCIAL PEACE OF LAST FEW YEARS. SAID WOULD IMPROVE
STATE ENTERPRISES AND USE RESOURCES EFFICIENTLY TO REDUCE
DEPENDENCY. CALLED FOR INTEGRAL COLLECTIVE SOLUTIONS AND
COMBINED EFFORTS BASED UPON EQUITABLE DISTRIBUTION OF WEALTH
RATHER THAN INDIVIDUAL EFFORTS TO TREASURE UP GOODS AND RICHES.

4. COMMENT: BANZER CHOSE TO AVOID PRICE INCREASING
MEASURES APPARENTLY OUT OF FEAR THAT THEY WOULD LEAD
TO GENERAL DISCONTENT AND CRITICISMS FROM HIS OPPOSITION
THAT MIGHT UNITE IT SUFFICIENTLY TO SERIOUSLY THREATEN
HIS GOVERNMENT. THERE HAS BEEN SPECULATION THAT ANNOUNCE-
MENT OF AN "ECONOMIC PACKAGE" WOULD LEAD IMMEDIATELY TO
A GENERAL STRIKE, ESPECIALLY IF IT INCLUDED PRICE INCREASES
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ON GASOLINE AND KEROSENE. MOST GOVERNMENT SOURCES HAD
INDICATED PRICE INCREASING MEASURES WOULD BE TAKEN. ONE
BUSINESS SOURCE, HOWEVER, TOLD EMBOFF FEW DAYS AGO HARD
MEASURES WOULD BE PUT OFF SOME SIX MONTHS BECAUSE GOB
FELT WEAKENED BY CONFLICT WITH EX-MINISTERS AYOROA AND
PATINO.

5. ON BASIS QUICK ESTIMATE, TREASURY DEFICIT IN 1975

MIGHT BE REDUCED FROM ABOUT \$B 900 MILLION TO PERHAPS
\$B 600 MILLION BY WAGE FREEZE. COSTS AND CARRYOVERS TO
1976 MIGHT REDUCE CASH DEFICIT TO \$B 300 MILLION WHICH
WOULD HAVE TO BE FINANCED BY CENTRAL BANK. THAT LEVEL OF
CENTRAL BANK
FINANCING WOULD BE TOLERABLE IF CENTRAL BANK
CREDIT TO OTHER SECTORS IS RESTRAINED AND IF EXTERNALLY
CAUSE INFLATION IS NOT EXCESSIVE.

6. ANNOUNCED REDUCTIONS IN IMPORT TAXES MAY NOT HAVE MUCH
IMPACT, IF ANY, ON IMPORT REVENUES IF RESTRICTED TO ITEMS
IN WHICH CONTRABAND IMPORTS HAVE BEEN SIZEABLE. ACCORDING
TO BUSINESS SOURCES, CARS, OTHER VEHICLES, REFRIGERATORS
AND OTHER APPLIANCES HAVE BEEN ENTERING BOLIVIA ILLEGALLY
IN SIGNIFICANT QUANTITIES, MAINLY FROM ARGENTINA THROUGH
SANTA CRUZ. EFFECTS OF INTERNAL TAX REBATES LIKELY TO BE
SMALL ON REVENUES AND EXPORT PROMOTION.

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ACTION ARA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-03 H-01 INR-07 L-02

NSAE-00 NSC-05 PA-01 RSC-01 PRS-01 SP-02 SS-15

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7. GOB IS LIKELY TO CONTINUE ITS REVIEW OF SITUATION OF
STATE ENTERPRISES IN EFFORT TO IMPROVE THEIR CASH FLOWS
AND IN DUE COURSE PROBABLY WILL TAKE NECESSARY MEASURES,

INCLUDING PRICE INCREASES, TO REDUCE THEIR BURDENS ON THE BUDGET. THE GOB IS NOW UNLIKELY, HOWEVER, TO COME OUT WITH ANY "ECONOMIC PACKAGE" OF MEASURES THAT MIGHT HAVE A SERIOUS ECONOMIC, POLITICAL OR PSYCHOLOGICAL IMPACT. THE GOB PROBABLY WILL SEEK TO AVOID ANY INCREASE IN DOMESTIC FUEL PRICES AS LONG AS THERE IS ANY OTHER WAY TO PROTECT YPFB'S FINANCIAL POSITION, SUCH AS TEMPORARY, TOTAL OR PARTIAL SUSPENSION OF YPFB TAX PAYMENTS ON DOMESTIC SALES. NONETHELESS, IT SEEMS LIKELY THAT GOB WILL RETURN TO ISSUES OF INCREASING DOMESTIC FUEL PRICES, ENFE RATES, POWER RATES, SUGAR AND POSSIBLY FLOUR PRICES AT LATER DATES ON CAREFUL, PIECEMEAL BASIS, POSSIBLY AFTER FOOD PRICES RECOVER FROM USUAL UPSURGE DURING RAINY SEASON, I.E. ABOUT MAY/JUNE.

8. PRESIDENT BANZER'S DECISION TO TAKE VIRTUALLY NO ACTION EXCEPT TO ANNOUNCE WAGE AND PRICE FREEZE MUST PUT LECHIN LIMITED OFFICIAL USE

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AND CASTILLO IN FIFFICULT STRAIGHTS, PERHAPS DIFFICULT ENOUGH TO FORCE THEIR RESIGNATIONS IN YET ANOTHER CABINET SHUFFLE. THE WAGE AND PRICE FREEZE PROBABLY HAS POSTPONED OR KILLED WHAT MIGHT HAVE BEEN A SERIOUS, POPULAR RE-ACTION. WE NOW EXPECT RELATIVE CALM THROUGH FEBRUARY AT LEAST.
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